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THE ECONOMICS OF PROLIFERATION IN THE PEOPLE'S  
REPUBLIC OF CHINA

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### *Abstract*

Proliferation of systems and technologies related to weapons of mass destruction (WMD) is a primary concern to U.S. policy makers in the post-Cold War era. Yet the dynamic of WMD proliferation takes place in an international environment where the hierarchy of issues and the constraints among international actors have changed greatly. This paper suggests that a concept labeled "Economism" structures contemporary issues among nations, including those military and security issues (to include proliferation) that since World War II, had been considered the strict province of "high politics." In order to examine this claim, this paper explores the proliferation activities of the People's Republic of China and the efforts of the United States to influence the PRC's proliferation policies. It further suggests that in order to understand proliferation activities in the PRC, an appreciation for what Graham Allison has termed "organizational" and "bureaucratic" models of decision making must be applied to the PRC in contravention to what the West normally considers as a closed, authoritarian, and egoistic central authority. Finally, with insights gained from this new understanding as informed by the imperatives of Economism, this paper presents options for U.S. leaders to consider in crafting more effective policies for dealing with the PRC's proliferation activities.

## Chapter 1

### Introduction

In *Power and Interdependence*,<sup>1</sup> Robert Keohane and Joseph Nye developed a model of international relations that they termed “complex interdependence,” wherein national security is not the overriding concern of the world’s most powerful countries, military force is largely irrelevant in resolving issues among these states, and multiple channels have developed to facilitate international transactions which have diminished the role of the state. However, whereas Keohane and Nye’s complex interdependence model suggests that *no* issue has replaced national security at the top of the international community’s priority list, this paper argues that a hierarchy *does indeed* exist in the politics of nations. In the post-Cold War era, where force has been all but ruled out in relations among the world’s most powerful states, due primarily to a quantitative and qualitative increase in global interdependence,<sup>2</sup> all issues in international relations are subordinate to policies designed to increase the national economic health and raise national living standards, a concept labeled “Economism.” One of the working hypothesis of this paper, then, is that governments will forego interests in other issue areas (security, environment, human rights, etc.) if they conflicted with, or could be usefully traded for, advantages in the economic sphere.

In determining issue-area hierarchy, care must be taken in the definition of "security." Where a nation's survival is threatened, levels of trade and foreign investment are irrelevant. While this truth is axiomatic, it is also not reflective of the current international environment. The survival of the world's largest countries is not in doubt nor is military conflict between them a valid concern of serious observers. This is not to say, however, that military forces are useless for the advancement of national interests. Clearly, the US has forces employed around the world in furtherance of national objectives. Similarly, as will be seen, China has embarked on a military modernization program which she hopes will enhance her regional influence. But it would be a mistake to equate all military activities with "security." Indeed, this paper does not suggest that arms sales, force deployments, and military assistance programs will cease to be tools of international diplomacy; they will, in fact, go on as usual (perhaps even more so in the post-Cold War era). Rather, it argues that since "security" in a national survival sense is no longer an issue among great powers, these lesser military activities are much more subject to influence and constraint by both domestic and international economic imperatives that all countries now place at the top of their political agendas.

On the other hand, proliferation of weapons of mass destruction to Third World rogue nations considered potentially hostile to the United States revives "security" in the traditional sense. "Security," more than economics, explains the US concern regarding Iraq and Iran's efforts to gain a capability to employ weapons of mass destruction (WMD). "Economism" does suggest, however, that both the recipient and the great power supplier of WMD technology and hardware can be persuaded to alter their courses in the face of economic inducements and punishments. It also suggests that even the

security aspects of WMD proliferation are not universal and absolute—the case study below will point out that depending on the country involved, economic considerations may even take precedence over the US commitment to non-proliferation of WMD.

The evidence that Economism guides the policies of at least two significant state actors, the United States and the People's Republic of China, is overwhelming.<sup>3</sup> Consider the following statement from Wu Yi, the PRC's minister of foreign trade and economic cooperation:

The world after the "Cold War" is still not very peaceful but the predominance of political and military factors in international relations has gradually been replaced by economic factors and economic considerations have become the most active and important factor in international relations.<sup>4</sup>

While one might quibble with Ms Yi's distinction between politics and economics, the thrust of her message is clear: economic growth and sustainment has assumed the position of "high politics" in the affairs of states.

In a similar vein, General John Shalikashvili, the nation's highest ranking military member, has said:

The next century is not going to be shaped in a place called Sarajevo, as tragic as that is; the next century is not going to be shaped in Port-au-Prince, or Kigali, or Mogadishu. My sense is that the next century is much more going to be shaped in the stock markets of Beijing, Shanghai, or Tokyo . . . My sense is that the kind of world we're entering, where the competition will be very much about economics, where three major economic power centers will compete, Northeast Asia, Europe, and the Americas, where the competition will be about markets and stability in those markets and prosperity in those market places, and where the Rwanda's, the Haiti's, and the Bosnia's are counter to that stability, you will have to be able to use America's forces to achieve our aims short of those where our vital interests are at stake. You must not deny the future president, whoever he may be, the ability to use America's forces to advance and protect our interests, our important interests, but short of them being vital interests.<sup>5</sup>

The Chairman's statement suggests that the military component of national security is being increasingly marginalized. Where stock markets are better indicators of national strength than are military forces, the latter are more pertinent to the protection of "important," as opposed to "vital," interests. National interests in the post-Cold War era center nearly exclusively on domestic economic growth and international competitiveness. Commenting on the most recent showdown with Japan over bilateral trade issues, one American official remarked that this economic dispute was similar to the military confrontation in Haiti with one major difference: "This is really important."<sup>6</sup>

Economism suggests that the world capitalist system "provides the critical environment in which states and classes operate by constraining, shaping, and channeling behavior."<sup>7</sup> Since all of politics is presumed to be guided by economic dictates, it follows that leverage in the economic arena ought to spill over into other issue areas. Conversely, Keohane and Nye argued that "although states may be tempted to draw linkages among issues, such linkages will be generally unsuccessful . . . power resources in one issue area lose some or all of their effectiveness when applied to others."<sup>8</sup> The thrust of this research is to examine the validity of these contradictory claims using the U.S.-China relationship as a case study. More specifically, this paper examines the case of Chinese proliferation of systems and technologies useful for the development of weapons of mass destruction to countries unfriendly to the United States. One set of commentators has offered the following summary of the hypothesis of this study: "China is unbending on human rights because it sees dissidents as a political threat. But we could more easily coerce it on exports, which are only about money. China's \$30 billion surplus in U.S. trade far exceeds the money it gets from secret chemical and missile deals. President Clinton's

victory on intellectual property shows that if China is forced to choose between arms proliferation and U.S. trade, it will probably choose trade.”<sup>9</sup> The presumptive dependent linkage suggested here between trade and security issues has major implications for US regional and international security policy with regard to the People’s Republic of China, an area that will also be addressed in the latter portion of this paper.

Why study China in this regard? In the midst of regional uncertainty regarding America’s continued commitment to the region, China has led southeast Asia in a “military buildup unprecedented in scope and alarming in its possible implications for regional rivalry.”<sup>10</sup> While several interpretations have been offered for explaining this trend,<sup>11</sup> most analysts conclude that the list is headed by regional rivalry over disputed territories with high potential economic benefits (particularly the Spratly Islands and issues associated with overlapping exclusive economic zones). However, in addition to examining the links between economic growth and national security, this paper explores an alternative explanation for China’s military buildup that de-emphasizes these traditional Realist views of geopolitical opportunism in favor of a State-centered interpretations based on domestic political and organizational imperatives. Rather than a long-range strategy of Chinese regional hegemonism and policies of intentional, anti-Western proliferation, China’s military build-up and accompanying arms sales are better explained by Kenneth Waltz’s “second image,” the state-level of analysis. Proliferation in China must be explained in terms of modernization and pluralism: since PRC defense spending trends and defense industry organization drive arms sales, these two topics will be examined first.

## Notes

<sup>1</sup> Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, Second Edition, Harper-Collins, 1989.

<sup>2</sup> For a discussion of the changing nature of international interdependence, see Robert J. Art, "Excerpts from a Defensible Defense: America's Grand Strategy After the Cold War," *International Security*, Spring 1991, pp. 5-53.

<sup>3</sup> For a detailed examination of this claim, see Kevin F. Donovan, "Power Through Interdependence: The US-China Case Study," Draft Dissertation, Queen's University, Kingston, Ontario, Canada, 7 December 1995.

<sup>4</sup> "Minister Wu Yi Reviews GATT Re-entry Efforts," *Wen Wei Po*, Hong Kong, 1 January 1995, pp. A3-4, quoted in FBIS-CHI-95-013, 20 January 1995, p. 1.

<sup>5</sup> General John Shalikashvili, Chairman, Joint Chiefs of Staff, in comments at the Air University, Maxwell Air Force Base, Montgomery, Alabama, 29 January, 1996.

<sup>6</sup> Thomas L. Friedman, "Blinking First on U.S.-Japan Trade," *New York Times*, September 27, 1994, p. E2.

<sup>7</sup> Paul R. Viotti and Mark V. Kauppi, *International Relations Theory: Realism, Pluralism, Globalism*, MacMillan Publishing, New York, 1993, p. 461.

<sup>8</sup> Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, Harper Collins, 1989, p. 50.

<sup>9</sup> Gary Milhollin and Meg Dennison, "China's Cynical Calculation," *New York Times*, April 24, 1995, p. A8.

<sup>10</sup> Yeo Ning Hong, Defence Minister of Singapore, as quoted by Amitav Acharya, "Explaining the Arms Build-up in Southeast Asia," *Asian Defence Journal*, 1/93, p. 66.

<sup>11</sup> Amitav Acharya, *ibid.*

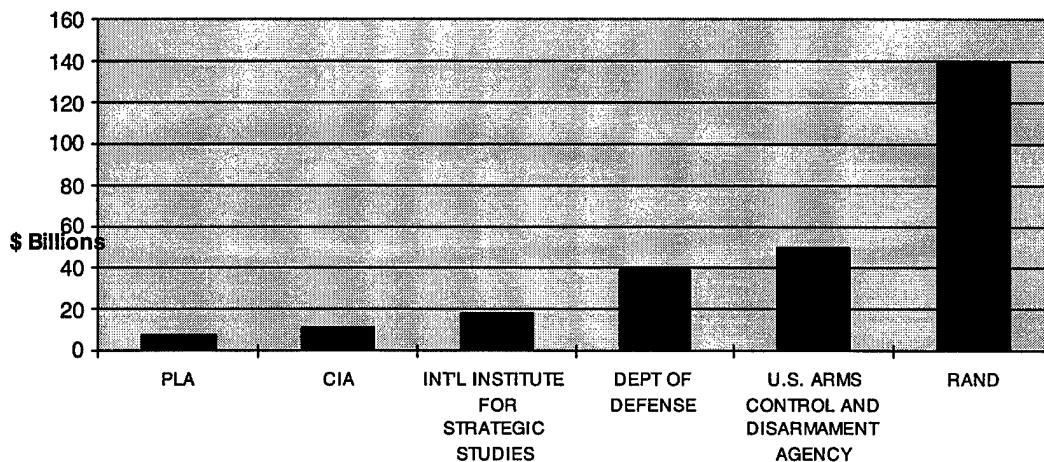
## **Chapter 2**

### **Defense Spending and Industrial Organization in the PRC**

Anxiety over long-standing disputes in the South China Sea intensified as a result of the US Department of Defense's 1992 East Asian Strategy Initiative (EASI),<sup>1</sup> wherein the US planned a gradual, but continual, reduction of forward deployed forces in the region. Concerns over a potential "power vacuum" created by the US withdrawal<sup>2</sup> accompanied by increasing Chinese defense expenditures caused the Clinton Administration to abandon plans for large scale reductions of US forces in South Korea which had been included in Phase II of the EASI. In February 1995, the Defense Department revised its Pacific strategy, stabilizing force structure in the region at 100,000 troops for the foreseeable future.<sup>3</sup> Despite this new American commitment, China's neighbors remain troubled over Beijing's aggressive military buildup which some see as "creating the nucleus of a formidable long-range military machine."<sup>4</sup> Paradoxically, while reduction in East-West tensions have created severe downward pressures on defense budgets in North America and Europe, the opposite is the case for the countries surrounding the South China Sea, particularly the PRC.

As depicted in Figure 1, the magnitude of the Chinese military buildup remains contentious. While acknowledging that stated defense budgets have increased by 10% per year since 1989, Chinese officials reported a paltry \$7 billion in defense outlays in 1994.<sup>5</sup>

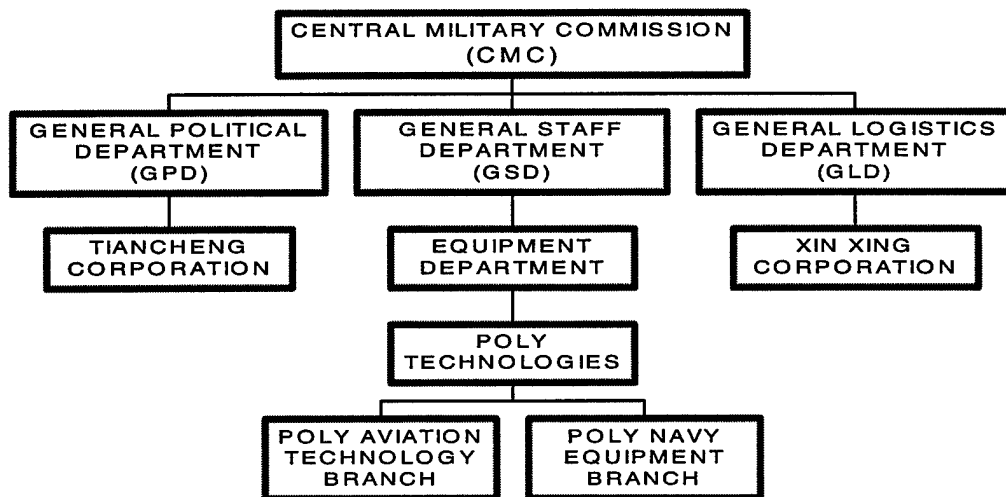
Yet, beyond the official figures, actual defense outlays are at least twice the official figure, in that government numbers do not count spending on research and development nor the rather obscure funding devoted to PLA-run arms sales enterprises and other civilian businesses operated by the PLA (discussed at length below). Taking these additional factors into account, a draft report by the non-profit Rand Corporation, a national defense think-tank in Santa Monica, California, suggests that actual annual defense spending is approximately \$140 billion, nearly 20 times the official figure.<sup>6</sup> Similarly, the London-based International Institute for Strategic Studies estimates that by purchasing power parity calculations, China's military spending ranks at least third, and possibly second in the world behind the United States.



**Figure 1. 1994 Estimates of Defense Spending in the People's Republic of China<sup>7</sup>**

The West is not alone in trying to discern the Chinese defense budget. Few in the Chinese government have a complete picture of defense spending.<sup>8</sup> Much of the problem stems from the very non-Western role that the PLA plays in commercial business operation and ownership. As a result of conversion efforts, government officials estimate

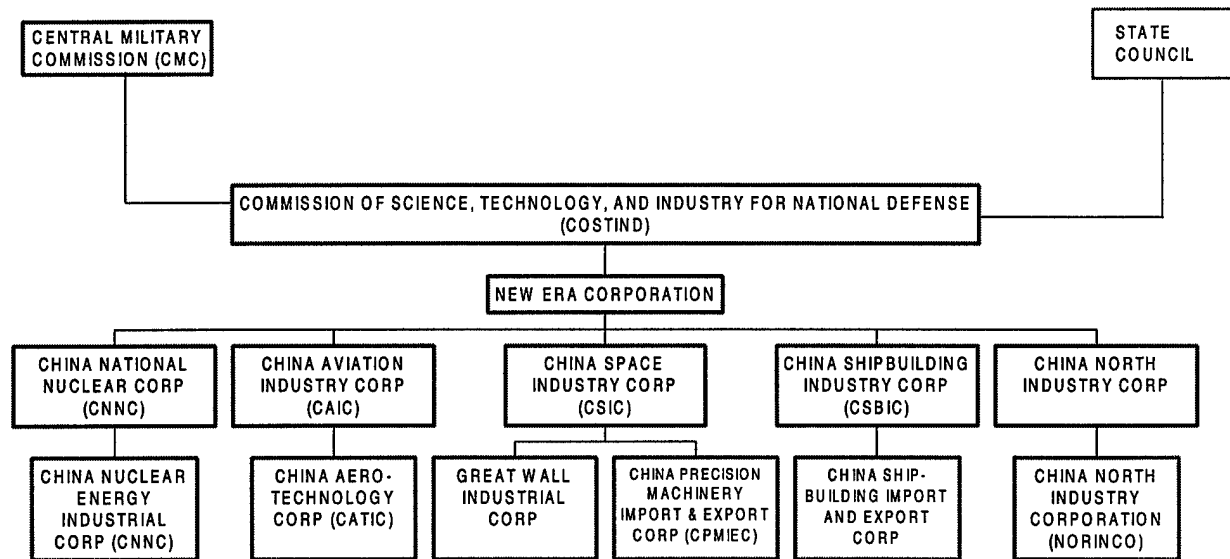
that around 65% of current defense industry output is devoted to civilian products. The PLA's "holdings" are diffuse in nature and large in scope. They include 5-star hotels (Palace Hotel) and satellite launch services for foreigners (the China Great Wall Industry Corporation). The PLA's General Staff runs Poly Group Corporation while the General Logistics Department operates Xinxing Corporation (this is tantamount to the U.S. Joint Staff running Boeing and J-4 managing General Dynamics). These relationships are depicted in Figure 2.



**Figure 2. PLA's Arms Export Network**

The PLA also has connections with the ostensibly civilian side of China's defense industry to include Norinco (arms exporters), China National Nuclear Industry Corporation (involved in nuclear reactor sales to Iran and Pakistan), and China Aero-Technology Import and Export Corporation (advanced aviation technology). As depicted in Figure 3, the Commission of Science, Technology, and Industry for National Defense (COSTIND) theoretically manages the defense industry, to include arms exports, through New Era Corporation and its six subsidiaries (bottom row, Fig. 3). However, envious of

the profits generated by COSTIND, the PLA succeeded where COSTIND had failed in the sale of DF-3A ballistic missiles to Saudi Arabia (see Table 1).



**Figure 3. China's Defense Industry and Trading Firms Network**

In all, some observers estimate the PLA has connections with as many as 20,000 companies.<sup>9</sup> Even this may be the tip of the iceberg in that many of these PLA subsidiaries routinely spin off new companies of their own without advising their nominal superiors: upon visiting one of his plants, an official of the Xinxing Corporation discovered that eight additional businesses had been opened without corporate headquarter's knowledge.<sup>10</sup> Rather than a lack of truthfulness, the bigger problem may be a deficiency in certified public accountants who can make sense out of a PLA conglomerate spinning out of control. On the other hand, transformation to Western-style defense accounting methods would undoubtedly produce a startling increase in official defense spending figures, further alarming China's nervous neighbors.

Despite the uncertainty in the ultimate figure, no one doubts that China has increased its efforts to modernize its military capabilities. Major acquisitions include Russian Su-27

fighters, T-72 tanks, Russian-designed Kilo-class nuclear submarines, and Il-76 heavy transport aircraft as well as U.S Stinger shoulder-fired anti-aircraft missiles (likely acquired through Pakistan) that proved so effective against the Soviet Union in Afghanistan. PLA officials have shown interest in acquiring MiG-31 fighters (including production technology), Tu-22M bombers with air-refueling capabilities, advanced surface-to-air missile systems, and Kiev-class aircraft carriers and Il-76 airborne warning and control systems from Russia.<sup>11</sup>

Many of these systems demonstrate a clear Chinese interest in developing a power projection capability which, combined with Beijing's unswerving claims in the South China Sea, has heightened concern for regional stability. China's ability to cover the Spratly Islands has also been enhanced by the construction of an airbase on Woody Island in the Paracels from which advanced fighter-bombers could be launched.

Beyond rhetoric, China has begun to flex its military muscle over the Spratly Islands issue. Presumably rich in oil (some estimates suggest that the area contains anywhere from 1 to 105 billion barrels), the 230 identifiable islands are minuscule: the largest (claimed by the Philippines) is less than a mile long and only 625 yards across. Many of the remainder are "merely rocky outcroppings that are underwater at high tide."<sup>12</sup> In the summer of 1994, Vietnamese forces clashed with PLA naval contingents in the disputed areas. In February 1995, Chinese military posts were discovered on Mischief Reef, a group of tiny islands claimed by the Philippine government, which promptly destroyed the facilities. Although all parties, including the PRC, have agreed to negotiate a peaceful settlement to the dispute, a final accord seems far off and continuing minor military skirmishes seem likely. For its part, the United States issued a May 1995 warning that it would not tolerate

any interference with shipments transiting the South China Sea, through which 25% of the world's maritime trade, and 70% of Japan's oil supplies, passes.<sup>13</sup>

China's spiraling defense budgets and increasingly adventurous behavior across the Taiwan Straits and in the South China Sea have generated intense debate in the U.S. regarding Beijing's long term intentions and strategy. On one side, a coalition of pro-Taiwanese and pro-defense industry politicians and interest groups see China as a "hegemon on the horizon" who will use their emerging economic strength to "undermine peace in the region."<sup>14</sup> Senator John McCain, the highly regarded Arizona Republican and ex-Vietnam POW, has similarly warned that China represents the real threat to the United States in the 21<sup>st</sup> century.<sup>15</sup> Many in the China hawk camp point to war games conducted in Newport, RI, that predict a Chinese Navy victory over U.S. forces in the year 2010.<sup>16</sup> Reportedly, the U.S. Central Intelligence Agency repeated these results for a simulation set in the year 2005.<sup>17</sup> For many of these commentators and government agencies, the consequences of a benign international environment provide daunting professional challenges.

These views are challenged by a more moderate group who see a much different side to the Chinese military buildup. Headed by Secretary of Defense Perry and former Assistant Defense Secretary for International Security Affairs Joseph Nye, Jr., these moderates refuse to see the PRC as a "threat," concentrating instead on Beijing's potential as a force for peace and stability in the region. They regard China's activities in the South China Sea as an "illusory threat"<sup>18</sup> and the Chinese military buildup as little more than a great nation attempting to modernize an archaic military establishment. Despite the war game simulations cited above, more recent studies suggest that neither the PLA Navy or

Air Force represent any kind of significant near or mid-term threat.<sup>19</sup> Assistant Secretary Nye has opined that "China is [not] going to be a global competitor of the U.S. for at least two decades."<sup>20</sup> Similarly, Chas Freeman, Joseph Nye's predecessor as Assistant Secretary of Defense for International Security Affairs and a China specialist, insisted that 2010 was "vastly too soon . . . to assume such a revolutionary growth in Chinese military capabilities."<sup>21</sup>

A closer look at trends in Chinese defense spending support these palliative impressions and provide insight regarding PLA motivations for involvement in the private economy. The PRC's political leadership has always expected the PLA to provide a high degree of self-sufficiency, particularly with regard to clothing and feeding the troops. Throughout the 1970's, PLA soldiers routinely operated farms and ranches which were used to offset the costs of feeding local military units. However, along with Deng's economic reforms of 1979, the PLA was told to modernize but not to expect additional budget authority to accomplish the modernization. With central civilian leadership's approval and encouragement, the PLA undertook a radical departure from the non-profit activities of food supply operations, launching tentative forays into the commercial market segment in order to provide funds for the modernization dictated by the Politburo. The need for PLA modernization was only reinforced by the stunning Gulf War demonstration of the devastating advantage of high tech weaponry over the kind of systems employed by the PLA. The effect was to redouble the military's efforts to generate the capital for modernization. And yet, despite the rapid growth of the official defense budget and the income generated by profits from some of the industries cited above, inflation and corruption in commercial profits distribution by military leaders have led to a situation

where "the PLA's actual purchasing power has not increased."<sup>22</sup> In fact, since 1990, most of the money added to the defense budget "has been used to cover soldiers' living costs rather than to purchase weapons."<sup>23</sup> Moreover, most Western analyses of the PRC's defense "buildup" miss the fact that the PLA has undergone several significant manpower reductions since 1985 including reported one million men cuts in both the 1985-87 timeframe and in the 1991-95 five-year defense plan.<sup>24</sup> These observations bolster the views held by the U.S. Department of Defense and should serve as sobering counterpoints to the frantic armwaving of the China hawks.

Even if the PLA's overall military modernization program is of no immediate concern to the U.S. defense establishment, one facet of their efforts to generate income for modernization clearly concerns Washington—the proliferation of technology associated with weapons of mass destruction, a topic to which we now turn.

### Notes

<sup>1</sup> See "A Strategic Framework for the Asian-Pacific Rim: Report to Congress - 1992," US Department of Defense, (Washington DC: US Government Printing Office, 1992).

<sup>2</sup> Sheldon W. Simon, "US Strategy and Southeast Asian Security: Issues of Compatibility," *Contemporary Southeast Asia*, Volume 14, Number 4, March 1993, p. 303; Acharya, *ibid.*, p. 68; and Dennis Warner, "Interdependence a Regional Cornerstone," *Asia-Pacific Defence Reporter*, February-March, 1993, p. 16.

<sup>3</sup> *United States Security Strategy for the East Asia-Pacific Region*, Department of Defense, Office of International Security Affairs, February 1995. See also Bradley Graham and Daniel Williams, "U.S. Reverse East Asia Withdrawal Plan; Troop Level to Stay at 100,000," *Washington Post*, February 28, 1995, p. 10.

<sup>4</sup> Michael Richardson, "China's build-up rings alarm bells," *Asia-Pacific Defence Reporter*, February-March 1993, p. 10.

<sup>5</sup> "Soldiering pays," *The Economist*, July 9, 1994, p. 39, and Congressional Research Service (CRS) Report to Congress No. 94-32 S, Robert G. Sutter and Shirley Kan, "China As A Security Concern In Asia: Perceptions, Assessment, and U.S. Options," 5 January 1994, p.8.

## Notes

<sup>6</sup> Barbara Opall, "Study Rings Alarm on PLA Budget," *Defense News*, May 29-June 4, 1995, p. 1.

<sup>7</sup> Ibid.

<sup>8</sup> "Soldiering Pays," p. 39.

<sup>9</sup> CRS Report 94-32 S, p. 8, and "Soldiering pays," p. 40.

<sup>10</sup> Tai Ming Cheung, "Serve the People," *Far Eastern Economic Review*, 14 October 1993, p. 65.

<sup>11</sup> For a more comprehensive list of Chinese weapons acquisitions, see the CRS Report cited above.

<sup>12</sup> Michael G. Gallagher, "China's Illusory Threat to the South China Sea," *International Security*, Summer 1994, p. 171.

<sup>13</sup> Barbara Opall, "U.S. Warns Claimants in South China Sea," *Defense News*, May 15-21, 1995, p. 3.

<sup>14</sup> Denny Roy, "Hegemon on the Horizon?," *International Security*, Summer 1994, pp. 149-168.

<sup>15</sup> Ben Barber, "Beijing eyes South China Sea with sub purchase," *Washington Times*, March 7, 1995, p. 13. See also Nicholas D. Kristof, "The Real Chinese Threat," *New York Times Magazine*, August 27, 1995, p. 50, and William C. Triplett II, "China's Booming Arms Buildup: Does the world really need a non-democratic military superpower?," *The Washington Post National Weekly*, May 16-22, 1994, p. 24.

<sup>16</sup> Barbara Opall, "China over the U.S. Navy?," *Navy Times*, February 13, 1995, p. 30.

<sup>17</sup> Kristof, *ibid.*

<sup>18</sup> Gallagher. *Ibid.*

<sup>19</sup> See Barbara Opall, "Study Debunks China Air Clout," *Defense News*, June 26-July 2, 1995, p. 3, and Jason Glashow, "U.S. Says Chinese Naval Threat Is Years Away," *Defense News*, October 23-29, 1995, p. 12.

<sup>20</sup> "Slow Going," *Aviation Week and Space Technology*, October 23, 1995, p. 23.

<sup>21</sup> Opall, "China over the U.S. Navy?," *ibid.*

<sup>22</sup> For an excellent summary of the PLA's traditional and contemporary role in the Chinese economy, see Ellis Joffe, "The PLA and the Chinese Economy: The Effect of Involvement," *Survival*, Summer 1995, p. 24-43. The conclusion cited here is found on page 29. See also, Arthur Ding, "Military Production and Defense Budget in the People's Republic of China," Conference Paper, 5<sup>th</sup> Annual American Enterprise Institute Conference on the People's Liberation Army, June 17-19, 1994.

<sup>23</sup> Tai Ming Cheung, p. 66.

<sup>24</sup> See Harlan W. Jencks, "China's Defense Buildup: A Threat to the Region?," in *China's Military: The PLA in 1992/1993*, Richard H. Yang, editor, Chinese Council of Advanced Policy Studies, Taipei, Taiwan, distributed by Westview Press, 1993, p.96.

## **Chapter 3**

### **PRC Proliferation Activities**

In addition to the steady build-up of PRC military capabilities, Sino-U.S. relations have been strained over the on-going dispute regarding Chinese weapons proliferation to other Third World countries, particularly those that the U.S. regards as rogue nations. The Clinton Administration's 1993 "Bottom-Up Review" and their 1995 National Security Strategy cited proliferation of weapons of mass destruction as one of the top threats to national security.

During the Cold War, use of the "China card" in the US-Soviet poker match was considered more important than the relatively lower level concerns of Chinese proliferation. The watershed events at the turn of the decade—the collapse of the Soviet Union, Tiananmen Square, and the Persian Gulf War—elevated Chinese proliferation on the US security agenda, as the strategic importance of the PRC as a counterbalance to the USSR disappeared. Likewise, the Allied victory in the Gulf war revealed the scope of the Iraqi nuclear weapons development program and alerted the West to the dangers of indiscriminate third-party transfer of technology for weapons of mass destruction. Although China has actively engaged in international sales of conventional arms, the West's primary concerns regarding China's proliferation activities revolve around two

main issues closely related to weapons of mass destruction—ballistic missile and nuclear technology transfers. This study focuses on these areas and discusses each in turn.

**Chinese Proliferation of Ballistic Missiles.** Since the early 80's, China has been linked to the sale and transfer of ballistic missiles and/or ballistic missile technology to Saudi Arabia, Syria, Iran, and Pakistan.

China secretly sold 36 DF-3 (Dong Feng - "East Wind") Intermediate Range Ballistic Missiles (IRBM) to Saudi Arabia during the Iran-Iraq War, a transaction reportedly worth more than \$3 billion. The Saudi's approached the Chinese after the US Congress rejected the Reagan Administration's attempts to sell more F-15 fighters to Riyadh than the previously imposed limit of 60. The Saudi's claimed they needed the missiles as a deterrent to Iranian missile attacks. Although the DF-3 was designed by the Chinese to carry nuclear warheads, the Saudi's (and later the Chinese) assured the US that the missiles they received had been modified to carry only conventional munitions. While the profit potential from the sale was certainly a motivation for Beijing, some have suggested that Beijing was also interested in cutting into the Saudi relationship with Taiwan (one of the few remaining countries still maintaining diplomatic relations with Taipei). In fact, within two years of the missile sale, Saudi Arabia dropped its recognition of Taiwan in favor of the PRC.

China has also actively marketed the shorter-range M-9 SRBM to Middle East countries (reportedly Syria and Iran), and the M-11, primarily to Pakistan. Export of both of these solid-fuel, mobile missiles violate Missile Technology Control Regime<sup>1</sup> guidelines. However, in November of 1991, China agreed to abide by the MTCR as part of a deal that would have Washington lift the first set of sanctions that had been imposed on China in

June 1991 for the transfer of missile technology to Pakistan. The U.S. lifted that set of sanctions in March 1992.

Still, Beijing's commitment to the MTCR remained questionable. In August of 1993, the US determined that China had transferred M-11 missile-related components to Pakistan during 1992, which, by U.S. law, required the imposition of sanctions once again on both Chinese and Pakistani firms. The largest impact of these sanctions were on the export of four US satellites built by Hughes and Martin Marietta scheduled for launch by the PRC (satellite components are in the MTCR annex of prohibited items if they are destined for export to those countries found to be in violation of the terms of the regime).

Once again, Washington seemed less than enthusiastic about following through with the sanctions it had imposed. The *Washington Post* reported that the Clinton Administration had officially proposed waiving the sanctions in November 1993 (just prior to the President's APEC meetings with Chinese President Jiang Zemin in Seattle), presumably in exchange for a more formal Chinese commitment to the MTCR. Although this initiative failed to produce an agreement in time for the APEC meeting, the offer was subsequently and ostentatiously accepted in October of 1994 in a highly publicized agreement signed by Secretary of State Christopher and Foreign Minister Qian Qichen in Washington.<sup>2</sup> In that accord, the PRC agreed to abide by nearly all the provisions of the MTCR without formally becoming a member. The US, in turn, lifted the ban on satellite technology transfer, clearing the way for sales totaling several hundred million dollars. It is important to note that this post-MFN agreement on missile technology proliferation is essentially identical to the one rejected by the Chinese prior to renewal of their MFN status.

Despite their October 1994 agreement, new concerns have surfaced that the PRC has once again transferred M-11 missiles to Iran and Pakistan during the early months of 1995.<sup>3</sup> If true, the U.S. would be faced with the incredible possibility that the Chinese had knowingly cheated almost immediately after signing a high-profile diplomatic accord with the most powerful country in the world, a country to which China's economic growth is inextricably linked. If true, the international community would be justified in rejecting Chinese international agreements as worthless and the Chinese diplomats that signed them as mere liars and cheats, bent on advancing their national interests regardless of cost.

**Table 1. Confirmed/Suspected Chinese Ballistic Missile, Cruise Missile, and Missile Technology Transfers**

	System	Year Transferred	Range (Km)/Payload (Kg)	Mtr Compli-Ant?	U.S. Response	Resolution
<b>Pakistan</b>	1) CSS-7 (DF-11/M-11) 2) CSS-7 (DF-11/M-11) 3) CSS-7 (DF-11/M-11)	1) 1990-91 2) Dec 1992 3) First half 1995	290/800	No*	1) Sanctions June 1991** 2) Sanctions Aug 1993** 3) Under Investigation	1) Waived Mar 1992 2) Waived Oct 1994 3) TBD
<b>Iran</b>	1) Technology associated with Tondar-68 2) C-802 Anti-ship cruise missile	1) First half 1995 2) Late 1995	1) 1000/500  2) 60 miles	1) No  2) N/A***	1) & 2) Under Intelligence Investigation	1) & 2) TBD

*Continue on next page*

Table 1—Continued

	System	Year Transferred	Range (Km)/ Payload (Kg)	Mtc Compli- Ant?	U.S. Response	Resolutio n
<b>North Korea</b>	Technolog y associated w/Scud-C, NoDong-1	Late 1980's	500/700 (Scud-C); 1000/1000 (NoDong-1)	Pre-MTCR	None	N/A
<b>Syria</b>	CSS-6 (DF-15/M-9)	?	600/500	No	Unconfirm -ed	N/A
<b>Saudi Arabia</b>	CSS-2 (DF-3)	1987	2500-3000/ 2150	Pre-MTCR	Diplomati c Inquiry	Tacit Acceptanc e

\* Although the Range/Payload specifications of the M-11 appear to be within MTCR guidelines of 300 km and 500 kg, the US has argued, and the Chinese have accepted (in their October 1994 agreement), that the missile has an *inherent* capability to exceed these criteria.

\*\* Sanctions were applied under unilateral U.S. law (Arms Export Control Act and Export Administration Act), since the MTCR has no enforcement mechanisms.

\*\*\* Although cruise missiles are not covered by the MTCR, this incident may violate a unilateral U.S. law (an amendment to the 1993 defense authorization act requiring sanctions on any country that transfers advanced conventional weapons to either Iran or Iraq).

For a proud country committed to becoming a leading regional and international power and a force for peace and stability, international honor, prestige, and probity are indispensable elements of diplomatic fare. It is difficult to believe that the Chinese would knowingly ignore these factors. Thus, we would do well to search for alternative explanations, which will be explored below.

**Chinese Proliferation of Nuclear Technology.** Equally troubling for Western democracies is China's seemingly cavalier attitude regarding recipients of its nuclear technology. Although a member of the Nuclear Nonproliferation Treaty (NPT) since 1992, China has been linked with nuclear technology transfers to Pakistan, Algeria, Syria,

Iraq, and Iran.<sup>4</sup> While prohibiting the transfer of nuclear weapons and weapons-making technology to non-nuclear states, the NPT expressly *permits* nuclear technology assistance for peaceful energy projects to assist non-nuclear countries in their economic development. The problem for Western states, of course, is that nuclear technology transferred to "rogue" nations, many of which are Chinese clients, can be applied to clandestine nuclear weapons programs.

China has reportedly supplied Pakistan (not a signatory to the NPT) with weapons grade uranium,<sup>5</sup> tritium (used to achieve fusion in hydrogen bombs),<sup>6</sup> and even a design for a 25 kiloton implosion device.<sup>7</sup> China has also signed a contract to build a 300 megawatt nuclear power reactor for Pakistan even though Japan, Germany, and France have reportedly denied provision of nuclear supporting systems for this reactor in accordance with Nuclear Suppliers Group policy. Despite this lack of Western support, China believes the reactor can be complete by the year 2000.

China's past problems with nuclear-capable India are reflected in the cozy nuclear relationship with Pakistan, a partnership that is foreboding given continued India-Pakistani animosity. Most recently, the CIA has determined that the China National Nuclear Company has delivered 5000 ring magnets, used in the uranium enrichment process, to Pakistan.<sup>8</sup> It is likely that such a transfer violates the U.S. 1994 Nuclear Proliferation Prevention Act (but *not* the technical terms of the NPT), a determination that would require \$10-11 billion worth of sanctions to U.S. companies doing business with China in the form of a cutoff of US Export-Import Bank loan guarantees, all in response to this single \$70,000 ring magnet sale.<sup>9</sup> These sanctions could be waived by the President if he determines a waiver would be "in the national interest."

The quick mobilization of business forces to oppose the imposition of sanctions in this most recent Pakistani incident once again emphasizes the potency of Economism. Representatives from Boeing, AT&T, and Westinghouse argued vigorously against sanctions, the latter citing the potential immediate loss of a \$23 million sales of turbine components for use in China's electricity-generating nuclear power plants. Similarly, citing both short and long term detrimental economic implications, the US State and Commerce departments both urged a quick waiver of any sanctions imposed<sup>10</sup> followed by more targeted sanctions against the China National Nuclear Corporation itself, a recommendation the President appeared to be leaning towards in late March 1996.<sup>11</sup> Even the last clear vestige of a traditional US security concern, proliferation of technology associated with weapons of mass destruction, can be marginalized in the face of economic considerations.

To date, Chinese nuclear technology support to Iran has fallen generally within the framework of the NPT, to which Iran is a signatory. IAEA teams have investigated Iranian sites in pre-announced inspections and found no NPT violations. Still, the US and others fear the transfer of dual-use technology to this Islamic fundamentalist state, whose ambitions in the region are suspect and whose nuclear motivations are easily discernible in light of the nuclear aspirations of Israel, Iraq, and others in the Mideast. As Iraq has demonstrated, a covert nuclear weapons program is possible even where a country is a member of the NPT, and IAEA safeguards are already in place. Moreover, many observers question the Iranian need for nuclear power in a country that is energy-rich. The Iranians are also involved in a \$2 billion-a-year military buildup and have attempted to import nuclear components that are inconsistent with a peaceful nuclear power program.<sup>12</sup>

Even more than missile and conventional weapons sales programs, the Chinese nuclear industry is highly dependent on foreign export of their nuclear products in the wake of the Chinese defense conversion program. A deal to provide Iran with two 300 megawatt nuclear reactors was met with intense U.S. displeasure in April of 1995, although the Chinese announced at the time that they intended to go through with the agreement anyway. But U.S. pressure appears to have been successful, when in September, Beijing agreed to abandon the deal.<sup>13</sup>

Two possible explanations can be offered to account for this turn around. First, the Chinese may have concluded that neither they nor their Iranian partners could maintain either side of the deal. Iran is experiencing difficulty in capital formation, particularly given the fact that they have committed over \$780 million for the construction of a larger Russian reactor. Additionally, as with Pakistan, Western nations have denied China the supporting material needed to complete the facility.

The second explanation derives from and harkens back to the bilateral economic relationship between the U.S. and China evident in the Most Favored Nation debate. During the next 30 years, China plans to build at least 14 more nuclear reactors within the PRC, creating a potential \$55 billion nuclear sales market. U.S. companies such as Westinghouse Electric are eager to participate in this lucrative export market, especially in light of the fact that domestic nuclear energy demand has nearly disappeared. However, U.S. public law requires "detailed presidential certifications" of Chinese compliance with nuclear export agreements, particularly the guidelines of the NPT.<sup>14</sup> The Chinese would get advanced Western nuclear technology while U.S. companies enjoyed a new source of long-term revenue. Beijing's September cancellation of the Iranian deal may go a long

way in securing these ends. In this respect, implicit economic undercurrents have again motivated cooperation in the security realm.

CIA Director James Woolsey has testified that China's nuclear relationship with Iran, Syria, and Algeria all appear to be NPT-compliant, although the Pakistani-PRC connection is "of greater concern." Still, China does not require IAEA safeguards on *all* nuclear materials transferred and it is not a member of the Nuclear Suppliers Group, a 27-member regime (which includes Russia) whose intent is to expand the NPT requirements into dual-use nuclear material (membership in the Nuclear Suppliers Group is not required by the NPT). Continued Chinese secrecy in ballistic missile and nuclear-related material transfers will likely remain a concern for Western countries and an obstacle to improving overall relationships.

**Table 2. PRC Involvement in Non-proliferation Regimes**

	<b>MEMBER</b>	<b>NON-MEMBER</b>
<b>NUCLEAR</b>	IAEA (1984) Non-Proliferation Treaty (1992) Tlatelolco Treaty (Latin America NFZ - 1974) Treaty of Rarotonga (South Pacific NFZ - 1987) Physical Protection Treaty (1990)	Nuclear Suppliers Group Zangger Committee
<b>MISSILE</b>		Agreed to adhere to provisions of the MTCR without formal accession (Oct 1994)
<b>CONVENTIONAL</b>	U.N. Arms Register Perm 5 Mideast Arms Transfer Talks*	* Withdrew 11/92, due at least in part, to U.S. F-16 sales to Taiwan
<b>CHEMICAL/BIOLOGICAL</b>	Geneva Protocol, Biological and Chemical Weapons Convention (1993)	Australia Group

## Notes

<sup>1</sup> The Missile Technology Control Regime (MTCR) was established in 1987 by the United States, France, United Kingdom, Canada, West Germany, Italy, and Japan. Neither a treaty nor an executive agreement, it is instead a set of guidelines that "member" countries agree to abide by with regards to the selling or transfer of systems, subsystems, or components of missile systems capable of delivering a nuclear warhead. A missile with a range of 300 kilometers (186 miles) and a payload of 500 kilograms (1100 pounds) was deemed to fall into that category. Unlike the IAEA, no organization exists to monitor compliance, although the US has passed domestic legislation (Arms Export Control Act and Export Administration Act) that has the effect of implementing MTCR guidelines. Neither China nor the former Soviet Union was approached for original membership. In January 1993, the MTCR guidelines were expanded to include missiles capable of delivering chemical and biological munitions. China agreed to abide by the earlier guidelines but not the latter, although the M-9 and M-11 missiles are covered by the earlier protocol.

<sup>2</sup> Elaine Sciolino, "U.S. and Chinese Reach Agreement on Missile Export," *New York Times*, October 5, 1994, p. 1.

<sup>3</sup> See Barbara Opall, "U.S. Queries China on Iran," *Defense News*, June 19-25, 1995, p. 1, and Brahma Chellaney, "India's new missile puts U.S. in quandary," *Washington Times*, September 22, 1995, p. 1. There remains some confusion whether these current accusations relate to new missile transfers to Pakistan or the possible deployment of previous M-11 transfers that heretofore likely have remained crated and for which the PRC has already been sanctioned. See Nayan Chanda, "See No Evil," *Far Eastern Economic Review*, August 10, 1995, p. 20.

<sup>4</sup> For an in-depth review of Chinese nuclear and missile technology proliferation activities, see Robert Shuey and Shirley A. Kan, "Chinese Missile and Nuclear Proliferation: Issues for Congress," Congressional Research Service Order Code IB92056, August 23, 1995.

<sup>5</sup> Gary Milholin and Gerard White, "A New China Syndrome: Beijing's Atomic Bazaar," *Washington Post*, 12 May 1991, p. C1.

<sup>6</sup> Ibid.

<sup>7</sup> *Nucleonics Week*, 23 May 1991.

<sup>8</sup> Bill Gertz, "China nuclear transfer exposed," *Washington Times*, February 5, 1996, p. 1.

<sup>9</sup> Steven Erlanger, "U.S. Studying Limited Penalties for Chinese Sale," *New York Times*, March 29, 1996, p. 6.

<sup>10</sup> R. Jeffrey Smith, "U.S. May Waive Sanctions on China For Sale Related to Nuclear Arms," *Washington Post*, February 8, 1996, p. 20.

<sup>11</sup> Erlanger, op. cit.

<sup>12</sup> *Nucleonics Week* (24 September 1992, October 1, 1992) reported that Iran had nearly procured a plutonium production research reactor from China and important fuel cycle systems from Argentina. The US was successful in halting these shipments, with MFN conditionality a factor in China's case.

## Notes

<sup>13</sup> See R. Jeffrey Smith, "China-Iran Talks Spark U.S. Worry," *Washington Post*, April 17, 1995, p. 1; John M. Goshko, "China Drops Reactor Deal With Iran," *Washington Post*, September 28, 1995, p. A22; and Elaine Sciolino, "China Cancels Deal for Selling Iran 2 Reactors," *New York Times*, September 28, 1995, p. A1.

<sup>14</sup> Secretary of Energy O'Leary met with Chinese officials in March 1995 to discuss ways that obstacles to presidential certification could be overcome. Shuey and Kan, *ibid.*, p. CRS-13.

## Chapter 4

### Explaining Chinese Proliferation

The tendency to look at Chinese proliferation activities as deriving from some unitary national actor employed in calculated assessments of relative positioning among a host of post-Cold War competitors seems dubious and highly short-sighted. Both the foregoing analysis and what follows suggests something more might be afoot here—that despite the central government's best intentions, structural economic imperatives that dictated Beijing's current economic liberalization policies have produced a much weakened central government that exhibits substantial difficulty in corralling the market forces it has unleashed, including the sales of arms abroad. It seems highly unlikely that the leaders of a country intent on becoming a world power would intentionally forego adherence to international agreements to which they are signatories, since reputation and veracity are the *sine qua non* of diplomatic currency. Rather than Realist categories, we need to explore what Graham Allison has described as bureaucratic politics and organizational explanations of foreign policy decisions.

Rather than deriving from some grand geo-strategic design, several analysts have argued that Chinese weapons proliferation results from fragmented, autonomous, and uncooperative decision-making cells within the PRC defense establishment.<sup>1</sup> Complex, family-connected networks operate across military organizations, government ministries,

and nominal civilian corporations. These networks can be unresponsive to admonitions from the Ministry of Foreign Affairs (“a mere facade, considered a necessity for relations with foreign counterparts”<sup>2</sup>), who must deal with the protests of foreign governments. The recent Chinese adage that “the center establishes policies; the provinces develop countermeasures” is likely just as applicable to the conglomerates of the PLA. Because arms sales continue to provide much needed hard currency to their organizations (and powerful individuals as well), these autonomous networks have little incentive to bend to international, or even internal, pressure. In an examination of the Poly Technologies’ sale of DF-3 missiles to Saudi Arabia, researchers report that when the Foreign Ministry objected to the sale, the issue was presented to Deng Xiaoping. When told that the sale had produced a profit of two billion dollars, “Deng replied, ‘bu shao’ (not little). The matter was thereby closed, and the ministry lost the argument.”<sup>3</sup> It is particularly instructive to note that the incident above suggests that both Deng and the Foreign Ministry only became involved *after* the sale, apparently not part of any prior approval process.

Far from an iron fist of central Communist Party rule, the economic explosion in threatens to untether Chinese entrepreneurs from their leaders in Beijing. Discussions with U.S. Consulate officials in Guangzhou indicate that many Chinese wish Beijing would increase its role in the economic changes taking place in coastal economic zones—Chinese businessmen feel that Beijing’s relative hands-off approach has produced a degree of economic anarchy in their regions.<sup>4</sup> This loss of control appears to apply in equal measure to the center’s infirmity regarding the activities of the PLA and defense industries. Although Chinese arms exports “in theory” require Foreign Ministry and State Council

approval, "highly placed individuals often presented the state, including the Foreign Ministry, with *faits accomplis* or simply ignored the formal procedures"<sup>5</sup> for obtaining official approvals. Even in the area of nuclear technology transfer, the PRC Foreign Ministry, despite their best intentions, appears to have only limited influence over the China National Nuclear Corporation, who reportedly continued questionable nuclear projects with Pakistan and Iran *after* Chinese assurances to the US that these activities would be halted.<sup>6</sup> The lack of "willful" proliferation by the central government was cited by Chinese officials who claim that companies such as the China National Nuclear Corporation retain a significant amount of independence to make this type of open sale, an argument that the Administration is considering in their response to the ring magnet transfer.<sup>7</sup> In a similar vein, Kenneth Lieberthal feels that the dispersal of political power within the PRC accounts for apparent violations within the economic sphere regarding intellectual property rights and market access as well as proliferation activities.<sup>8</sup>

Beijing has attempted to regain control over the unsupervised activities of the PLA profiteers with the establishment of an Arms Export Control Group wherein all major foreign arms sales must obtain a central government license. The extent to which this group has been successful in reigning in organizations such as Poly must remain dubious in light of the suspected recent missile transfers to Iran and Pakistan. Moreover, to the extent that control is "exercised at all," it appears that the Central Military Commission, "not the Foreign Ministry,"<sup>9</sup> wields the most clout in the approval process.

The secrecy that surrounds the workings of the CPC will continue to shroud Western analysis and explanations. The remarkably quick renaissance of China as a great power in world politics seems to have exposed the diplomatic immaturity of the authoritarian

leaders in Beijing as they pursue heavy-handed and counterproductive policies toward Taiwan and fail to conceptualize the non-economic ramifications of indiscriminate proliferation of weapon systems with WMD implications. Although it would be naively apologetic to suggest that the leadership in Beijing is blameless and ignorant of *all* PRC proliferation activities, Western observers and politicians would do well to consider more plausible alternatives to the image of China as a unitary, uncooperative trouble maker bent on assisting rogue regimes in threatening Western interests.

### Notes

<sup>1</sup> See John W. Lewis, Hua Di, and Xue Litai, "Beijing's Defense Establishment: Soling the Arms-Export Enigma," *International Security*, Spring 1991 (Vol. 15, No. 4); Weixing Hu, "China's Nuclear Export Controls: Policy and Regulations," *The Nonproliferation Review*, Winter 1994; Yan Kong, "China's Arms Trade Bureaucracy," *Jane's Intelligence Review*, February 1994, p. 82; and Shuey and Kan, *ibid.*, p. CRS-2.

<sup>2</sup> Lewis et al, *ibid.*, p. 88.

<sup>3</sup> Lewis et al, *ibid.*, p. 96. To illustrate the network of familial connections at the top of the CPC and defense industries, consider the following: as of February 1994, Poly's General Manager, Colonel He Ping, is Deng Xiaoping's son-in-law; the chairman of the board, Wang Jun, is the son of the state's vice president, Wang Zhen (a close friend of Deng's who died in 1993); Poly's former vice-president, Wang Xiaochao, is the son-in-law of Yang Shangkun, formerly the state president and CMC's executive vice-chairman (Kong, *op. Cit.*).

<sup>4</sup> The U.S. Consul General in Guangzhou stated that even revenue levels are negotiated between Beijing and the provinces. The only remaining (but still impressive) levers of central control include the military, political appointments, local security apparatuses, and monetary (credit) policies. Personal discussions with author as a member of the Air War College delegation, Guangzhou, PRC, 10 March 1996.

<sup>5</sup> Harry G. Gelber, "China, Strategic Forces and Arms Proliferation," in *China's Military: The PLA in 1992/1993*, Richard H. Yang, editor, Chinese Council of Advanced Policy Studies, Taipei, Taiwan, distributed by Westview Press, 1993, p. 83.

<sup>6</sup> See Roxane D.V. Sismanidis, "China and the Post-Soviet Security Structure," *Asian Affairs*, Spring 1994, p. 47. Throughout this article, Sismanidis makes numerous references to the lack of internal control within the PRC hierarchy across all aspects of China's incongruous arms sales.

<sup>7</sup> Erlanger, *op. cit.*

<sup>8</sup> Kenneth Lieberthal, "A New China Challenge," *Foreign Affairs*, November/December 1995, p. 42.

## Notes

<sup>9</sup> Gelber, p. 83.

## Chapter 5

### Policy Options for the U.S.

The troublesome nature of the Chinese military build-up, nuclear technology transfers, and arms export programs once again leads us back to an examination of power, interdependence, and control over outcomes. Can the US prevent, or otherwise limit, the PRC behavior in the security realm that it finds unacceptable? To what extent are (or could) the available options (be) tied to economic interdependence?

If proliferation is the *top* new danger to US security interests, then the irresolute US response to Chinese proliferation activities demonstrate that at least this Administration has substituted the “low politics” of economics for the “high politics” of military security. During the Cold War, the problem was geostrategic politics straight from the Realist school; in the post-Cold War era, the imperatives of “economism” and the attendant repercussions for domestic politics make economic confrontation extremely unpalatable for a politician interested in keeping his job. As Congressional Research Service analyst Shirley Kan has suggested<sup>1</sup>, US willingness to invoke its substantial economic leverage as part of a strategy to change Chinese proliferation behavior has never been seriously pursued, despite the fact that economic sanctions have yielded a substantial degree of success in obtaining at least *public* acquiescence by Chinese decision-makers to U.S. non-proliferation positions (China’s MFN status was also a factor in derailing a 1991-92

Iranian effort to procure from Beijing a 25-30MW nuclear research reactor<sup>2</sup>). Because of the autonomous nature of the Chinese arms export operation, others suggest any committed effort to invoke sanctions would prove futile anyway.<sup>3</sup>

**Unilateralism.** Certainly, half-hearted unilateral attempts have been made to punish Chinese proliferation through economic means. Sanctions have been imposed on targeted industries and companies in the PRC by both Republican and Democratic administrations. However, as we have seen with the MTCR-related sanctions on satellite and high-speed computer equipment, any Administration that attempts to punish China through economic means is immediately confronted by a phalanx of opposing interest groups ranging from powerful industry representatives, who are quick to mobilize “jobs” and “competitiveness” arguments, to Pentagon officials who wish to avoid alienating China in acknowledgment of Beijing’s influence over regional security issues (most recently, North Korea). Even within the Administration, officials from the State and Commerce Departments often find themselves at odds when sanctions loom.

Similarly, members of Congress find themselves less enthusiastic in the degree to which they are willing to legislate punishment of the PRC. Immediately after Tienanmen Square, strong support was generated for linking broad-based conditionalities to China’s MFN renewal, including expansive non-proliferation requirements. That enthusiasm has waned as Tienanmen fades from memory and Secretary of Commerce Ron Brown announces \$5 billion deals.<sup>4</sup> Since the end of the Cold War, neither the Bush nor Clinton Administrations favored explicit ties between MFN and proliferation issues, both seeking to handle these two issues in separate forums.

Still, the legislative tool has not been forsworn as a unilateral measure; both the Arms Export Control Act and Export Administration Act remain in effect and have been supplemented by the Iran-Iraq Nonproliferation Act, enacted as part of the FY 1993 Defense bill. This new law requires sanctions to any country transferring goods or technology (including dual-use items, training, and/or information) that could be used in the development of weapons of mass destruction. Sanctions include suspension of economic and military assistance. In the summer of 1993, bills were introduced that would expand the level of sanctions on countries dealing with Iran and Iraq to include financial assistance and co-production/development programs.<sup>5</sup> As past experience has shown, US willingness to rigorously apply such sanctions to *China* as a result of this meant-for-public-consumption legislation remains dubious.

For the Clinton Administration, export control hardly seems the issue. So far, the pace of US export deregulation has far outstripped that of unilateral export control measures. Following his economic security theme and overruling Pentagon concerns about dual-use applications, President Clinton has institutionalized a new General License (GLX) that extensively decontrols export of telecommunications equipment and computers (raising the threshold at which export licenses are required to 10 billion theoretical operations per second). These new guidelines are expected to produce an additional \$10 billion in new computer sales.<sup>6</sup>

Not surprisingly, American business applauds the rapid pace of decontrol. AT&T estimates that the new regulations could have a \$100 million per year impact on its overseas business. Dick Iverson, President of American Electronics Association, cites "billions of dollars of additional exports for America's high tech companies." One

commentator notes gleefully that the “national security nerds in the Defense Department and the intelligence community, worshippers of Richard Perle’s mid-1980’s arguments that the Soviets would use PCs to target their ICBMs, are now running for cover, having been flushed from their impregnable fortifications that date back to the 12 years of Reagan-Bush export control ideology.”<sup>7</sup>

More importantly, the Clinton Administration’s seems to have invoked a radical shift in its entire policy regarding missile proliferation. While condemning the PRC for M-11 transfers to Pakistan and Iran, Washington has apparently agreed to relax the START treaty provisions prohibiting the export of ICBM and submarine-launched ballistic missiles by Russia and Ukraine. These revisions will apparently allow the export of “converted SS-24 and SS-25 mobile missiles to such countries as China, Iran, Libya, and North Korea without treaty safeguards.” Congressional critics describe this new Administration policy as a “mindless concession to the Russian Federation [that] has created an enormous new threat of ballistic missile proliferation to the Third World.”<sup>8</sup> If this policy survives Congressional and public scrutiny, Washington’s unilateral efforts to prohibit countries such as China from doing the same thing will undoubtedly appear hypocritical and ultimately prove futile.

**Bilateralism.** Whereas US unilateral approaches appear ambiguous, bilateral initiatives regarding proliferation have been confined to an increase in informal, high-level military-to-military contacts. Beginning in November of 1993, military contacts between Washington and Beijing were resumed following their prolonged freeze in the aftermath of Tienanmen Square. Assistant Secretary of Defense Freeman’s visit to Beijing resulted in the establishment of the Defense Conversion Commission, a bilateral initiative designed to

explore ways to convert outmoded Chinese defense industries into money-making domestic plants. Several site-survey visits to China were planned by Pentagon officials in the wake of the Assistant Secretary's visit.<sup>9</sup> While not particularly significant in strictly military terms, the Defense Conversion Commission is best characterized as a confidence-building measure and a stepping-stone to more concrete military cooperation. Unfortunately, funding for the Defense Conversion Commission (\$45 million annually) is now under short-sighted attack by China hawks in the U.S. Congress who argue that the money may go to continuation of the PLA military build-up.<sup>10</sup>

In the policy debate leading up to the 1994 MFN decision, influential offices in the Pentagon expressed concern for the future health of this emerging military relationship. The DOD position was that long-term, strategic interests should drive US policy towards China and that termination of MFN status would jeopardize on-going initiatives and the maintenance of smooth relations. Although undeniably an issue controlled mainly by economic and political considerations,<sup>11</sup> key offices in the Pentagon believe the DOD position was quite significant in the decision to renew China's MFN status.<sup>12</sup> Similarly, had MFN status not been renewed, the Air Attaché in Beijing was convinced that "we would have had very little to do."<sup>13</sup>

**Multilateralism.** Finally, the US may wish to rely on multilateral approaches to the problem of Chinese weapons proliferation. Both President Clinton and Secretary of State Christopher have recommended a resumption of the Five Power Talks, in particular urging Chinese participation. Of course, the West would most like to see formal Chinese accession to the MTCR and more transparency in its commitment to the NPT. Chinese support in the UN Security Council for tougher IAEA enforcement powers would go a

long way in demonstrating Beijing's anti-proliferation resolve. Similarly, the nuclear powers and China's neighbors will likely seek China's commitment to the Nuclear Suppliers Group and the Australia Group (for chemical and biological weapons). Also, many of the non-nuclear countries tie their support of non-proliferation programs to the nuclear powers' conclusion of a Comprehensive Test Ban Treaty. Recent Chinese nuclear weapons tests, conducted despite international pressure to desist, indicates that a CTB may prove elusive. Still, many commentators predict Chinese acquiescence to formal membership in these multilateral regimes since they provide the great-power prestige long sought by Beijing.

One final multilateral forum for reduction of Chinese proliferation activities centers around the follow-on regime to the now defunct COCOM (Coordinating Committee on Multilateral Export Controls). Originally a 17-country institution whose purpose was to deny high technology to the Soviet bloc, COCOM has outlived its usefulness in the post-Cold War era. Although COCOM's target has disappeared, the underlying premise remains the same—stopping the proliferation of weapons and weapons technology to countries deemed a threat to COCOM member nations.<sup>14</sup>

Many of the battles COCOM fought were not directed at the Soviet bear, but at each other. Member countries often resisted US leadership regarding the extent of the items to be banned from export to the Warsaw Pact. The fractious nature of this loose coalition was most clearly evident during the uproar over the Reagan Administration's 1982 sanctions on European firms working with the USSR on the trans-Siberian natural gas pipeline, and in the 1988 debacle regarding the Toshiba-Kongsberg transfer to the Soviet

Union of precision milling equipment, useful in the manufacture of stealthy submarine propellers.

The history of COCOM provides no comfort for those hoping for more cohesive non-proliferation regimes in the post-Cold War era. Yet negotiations have been completed that craft a 21st century replacement, which targets a new set of threats—the “rogue” nations of Iran, Iraq, North Korea and Libya. COCOM’s successor, tentatively called “The New Forum,” includes all of the members of NATO as well as Austria, Japan, Finland, Switzerland, Luxembourg, Australia, Sweden, New Zealand, the Czech Republic, the Slovak Republic, Hungary, Poland, and Russia. The new regime will be far weaker than its predecessor: compliance will be strictly voluntary and no prior notification of an arms-related transfer need be given to the regime’s membership, sharply limiting the ability to apply pressure to stop a transaction.<sup>15</sup>

Noticeably absent from this line-up is, of course, the People’s Republic of China, who was “not invited . . . because of alleged exports of weapons to Pakistan, Iran, and other countries.”<sup>16</sup> As Dr. Chris Szymanski has noted, “excluding China from the MTCR was the big mistake of the 80’s; leaving them out of a post-COCOM regime will be the big mistake of the 90’s.”<sup>17</sup> As Dr. Szymanski and others<sup>18</sup> point out, failing to enlist the PRC’s support as a founding member of the New Forum abandons an opportunity to further American interests. Additionally, stroking the Chinese regarding the US perception of the stature of the Chinese contribution will likely pay dividends in future bilateral security issues.

**Defense Partnership.** A still bolder approach is possible. At a recent ASEAN Regional Forum in Bangkok, Foreign Minister and Vice Premier Qian Qichen stated that

China adheres to the principle that armaments should only be used for defensive purposes and an arms race should be averted at all costs.<sup>19</sup> The US could test this resolution through a combination of both bilateral and multilateral approaches: US-made, high technology defensive weapons systems for formal Chinese accession to the MTCR and New Forum membership.<sup>20</sup> One possible option would be sale of F-16 Air Defense Fighters, a modified version of the F-16 that has no air-to-ground capabilities, only enhanced air intercept features.<sup>21</sup> A breakthrough arrangement such as this has the potential for solidifying the Sino-US security relationship through increased defense industry ties, shared regional and global security goals, and a partnership based on participation rather than rhetoric. The downside does not appear steep—even a revisionist approach by a hard-line, post-Deng regime would cost the US little in terms of military balance-of-power calculations (deliveries would undoubtedly be spread out over several years, making them susceptible to cancellation).

### Notes

<sup>1</sup> Personal interview, US Embassy Beijing, 27 August 1994.

<sup>2</sup> Shuey and Kan, *ibid.*, p. CRS-11.

<sup>3</sup> Lewis, p. 108-109.

<sup>4</sup> "Chinese Surprise," *Missoulian* (Missoula Montana), 31 August 1994, p. B5.

<sup>5</sup> Senate Bill 1172 (McCain/Lieberman) and Senate Bill 1054 (Glenn)/House of Representatives Bill 2358 (Lantos).

<sup>6</sup> Pat Cooper and Theresa Hitchens, "New U.S. Computer Export Rules Spark Optimism, Arms Control Fear," *Defense News*, October 16-22, 1995, p. 26.

<sup>7</sup> Erik Wemple, "Wow!," Commentary, *Export Control News*, March 31, 1994, p. 11.

<sup>8</sup> See Bill Gertz, "U.S. relaxes START, raising missile fears," *Washington Times*, November 9, 1995, p. 1.

<sup>9</sup> Personal interview with Dr. Eden Woon, 24 June 1994, offices of the Assistant Secretary of Defense for International Affairs, Pentagon, Washington DC.

<sup>10</sup> See "Funding Cut Rocks U.S. China Policy," *Defense News*, May 29-June 4, 1995, p. 4, and "Reverse China Vote," *Defense News*, June 5-11, 1995, p. 26.

## Notes

<sup>11</sup> For a more comprehensive examination of the factors leading up to the 1994 Most Favored Nation decision, see Lt Col Kevin F. Donovan, "Economic Power in the Sino-U.S. Relationship," Institute for National Security Studies Occasional Paper 5, U.S. Air Force Academy, CO, December 1995.

<sup>12</sup> Dr. Eden Woon, op. cit.

<sup>13</sup> Personal interview with Colonel Rocky Roland, Air Attaché, US Embassy, Beijing, 29 July 1994.

<sup>14</sup> For an in-depth review of the history of COCOM, see Michael Mastandano, *Economic Containment, COCOM and the Politics of East-West Trade* (Ithaca, N.Y.: Cornell University Press).

<sup>15</sup> See R. Jeffrey Smith, "U.S. Agrees to New System for Curbing Sensitive Exports," *Washington Post*, September 20, 1995, p. 15.

<sup>16</sup> Ibid.

<sup>17</sup> Dr. Szymanski is Minister Counselor for Economic Affairs, US Embassy, Beijing. His comments come from a personal interview with the author, 28 July 1994, op cit.

<sup>18</sup> Weixing Hu, op cit., and Yanping Chen, "The Need for a Greater Chinese Role in Missile Non-Proliferation Issues," *The Nonproliferation Review*, Spring-Summer 1994, pp. 66-70.

<sup>19</sup> "China Opposes an arms race - Qian," *China Daily*, 26 July 94, p.1.

<sup>20</sup> U.S. military sales to the PRC are not unprecedented. From 1977 to 1993, the United States signed Foreign Military Sales agreements with China totaling \$306 million. Over \$155 million worth of equipment and services were actually delivered. The largest single program was a \$550 million avionics upgrade to Chinese F-8 interceptor aircraft under a project codenamed "Peace Pearl." This project ended due to cost overruns and the impact of the Tiananmen massacre. A \$140 million contract for 24 UH-60A Blackhawk helicopters was completed. See Thomas L. Wilborn, "Security Cooperation with China: Analysis and a Proposal," Strategic Studies Institute, U.S. Army War College, November 25, 1994.

<sup>21</sup> F-16ADF's were developed specifically for US Air National Guard squadrons dedicated to the North American Aerospace Defense Command (NORAD), in which they currently serve.

## Chapter 6

### Summary

What does the foregoing tell us about power linkage *across* issue areas? In total, the evidence above suggests that asymmetries in economic interdependence *can* translate into security areas if governments are resolute enough to stay the course.<sup>1</sup> However, in the age of Economism, compelling foreign governments to do one's bidding through the withholding of economic benefits involves significant political and economic costs on the punisher as well as the punished. As with the Most Favored Nation case, threats of economic penalties for non-compliance with proliferation demands are subject to some of the same constraints, namely; intense lobbying on the part of American businesses that stand to lose from the invocation of economic sanctions and the disinclination of Congress to commit to blunt economic instruments in the face of domestically-unacceptable Chinese economic retaliation.

This case study also helps reveal the danger in over-simplifying our analysis of the motivations and decision-making processes in the PRC. In attempting to apply economic levers against China, we should be aware that we are targeting the interests of powerful political elite with personal agendas not necessarily related to the general welfare of Chinese people. The conception of Chinese leadership as a Mao-ist monolith speaking as one from the Zhongnanhai leadership compound must be replaced with a more pluralist

model. The effect of U.S. economic instruments in conditioning Chinese behavior will likely be highly contingent, subject to internal political machinations within the CPC.

On the other hand, it is increasingly clear that the Sino-US economic relationship *drives* the security relationship. To the extent that the US can *strengthen* economic ties with the PRC, the possibility for cooperation, if not leverage, in the area of weapons proliferation is greatly enhanced. The high politics of Economism will continue to channel outcomes in all aspects of the security arena. Steven Flank has offered this assessment of the future of proliferation issues in the age of Economism: "From NPT talks to the GATT, from MFN status for China to ensuring economic stability in Russia, the future of proliferation fundamentally depends on whether the international economic order moves toward interdependence or conflict and autarky. Efforts such as the Nuclear Suppliers Group, while helpful, are holding actions that operate at the margins in comparison to the broader course of the politics of international economics."<sup>2</sup> Likewise, the success of efforts to curb the spread of systems and technologies associated with weapons of mass destruction is likely to hinge on the ability of policy makers to develop solutions within the broader framework of Economism and the economics of proliferation.

### Notes

<sup>1</sup> Chas Freeman, former assistant defense secretary for international security affairs, has said that "repeated U.S. efforts to discourage Chinese missile sales to Iran and Syria have proved successful in the past." Opall, "U.S. Queries China on Iran," op cit., p. 50.

<sup>2</sup> Steven Flank, "Nonproliferation Policy: A Quintet for Two Violas?," *The Nonproliferation Review*, Spring-Summer 1994, p. 76.